

Message Text

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ORIGIN EA-14

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EA/J - MR. PIEZ

EB/FSE -

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R 131607Z DEC 73

FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

INFO AMEMBASSY TOKYO

C O N F I D E N T I A L STATE 243613

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E.O. 11652: GDS

TAGS: ENRG, ID, JA

SUBJ: PACIFIC LIGHTING LNG CONTRACT

1. DURING CALL IN DEPT DEC 12 PACIFIC LIGHTING (PL) REPS DESCRIBED HITCH IN PRICING ARRANGEMENTS WHICH MAY BE DEVELOPING. ON DEC 5, PL RECEIVED TELEX FROM IBNU SUTOWO INDICATING HE MIGHT WISH TO PROPOSE CERTAIN MODIFICATIONS IN PRICING CLAUSES OF PL-PERTAMINA CONTRACT. (ARTICLE EIGHT OF CONTRACT WAS OMITTED FROM INITIAL PL SUBMISSION TO FPC WITH NOTE TO EFFECT THAT DETAILS WOULD BE SUPPLIED LATER. INITIALLY, THIS WAS DONE WITH PERTAMINA'S APPROVAL TO AVOID DISCLOSING PRICING DETAILS TO JAPANESE. NOW, DETAILS WILL BE HELD UP UNTIL PERTAMINA'S PROPOSAL HAS BEEN RECEIVED, CONSIDERED, AND ACTED UPON). IN SUBSEQUENT PL PHONE CALL THAT DAY TO TIRTO UTOMO, LATTER OBLIQUELY INDICATED THAT PERTAMINA THINKING OF SOME ARRANGEMENT TO PEG PRICE OF LNG TO PREVAILING PETROLEUM PRICES. PL TELEXED IBNU DEC 6 TO ASK WHAT HE HAD IN MIND. AS YET NO REPLY HAS BEEN RECEIVED.

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2. PL EXPECTS TIRTO TO VISIT CALIFORNIA DEC 20-24, BUT

UNCERTAIN WHETHER TIRTO WILL RAISE SUBJEC . (IBNU HAD PREVIOUSLY INDICATED THAT WIJARSO SHOULD HANDLE PRICING NEGOTIATIONS).

3. IN ANY EVENT, PL DEFINITELY AGAINST PEGGING TO OIL PRICES AND TOLD THIS TO PERTAMINA IN SEPT NEGOTIATIONS. LNG SUPPLY ENTERPRISES CHARACTERIZED BY NARROWLY DEFINED REGULATED-PRICE MARKETS AND NARROWLY DEDICATED EQUIPMENT AND MUST HAVE STABLE LONG TERM COST BASIS TO BE VIABLE, UNLIKE OIL COMPANIES WHICH CAN MARKET THEIR PRODUCT MUCH MORE FREELY DURING PERIODS OF PRICE CHANGE. MORE-OVER, A PL APPLICATION TO FPC, FEATURING A GAS SUPPLY AT UNPREDICTABLE PRICES AND AT PRICES WHICH MIGHT RISE SO HIGH AS TO ENCOURAGE USE OF OTHER ENERGY SOURCES, WOULD BE LESS LIKELY TO GAIN FPC APPROVAL.

4. PL NOT ADAMANTLY OPPOSED TO AMENDMENT OF PRESENT PRICING CLAUSE AND APPARENTLY PREPARED TO CONSIDER PROPOSAL WHICH WOULD TIE LNG PRICE CHANGES TO ANOTHER MUTUALLY ACCEPTED INDICATOR.

5. REGARDING GENERAL OUTLOOK FOR ITS APPLICATION TO FPC, PL CONCERNED THAT FPC MAY DICTATE A PRICE WHICH WOULD BE UNACCEPTABLY LOW TO PERTAMINA.

6. PL REPS PUT PRESENT PROVEN RESERVES AT 19 TRILLION CUBIC FEET AND SAID SIX PRODUCTION TRAINS NOW PLANNED, NOT FOUR AS ORIGINALLY SCHEDULED. PROSPECTIVE INPUT WOULD BE 1.5 BILLION CUBIC FEET PER DAY (VICE 1 BILLION) AND PROSPECTIVE OUTPUT 1,092 MILLION CUBIC FEET (VICE 730 MILLION). THIS MEANS THAT ARUN FIELD OUTPUT WOULD BE EQUALLY SHARED WITH JAPANESE, (546 MILLION CUBIC FEET DAILY EACH). RUSH

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